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State of Idaho

Legislative Services Office

Management Report

A communication to the Joint Finance-Appropriations Committee

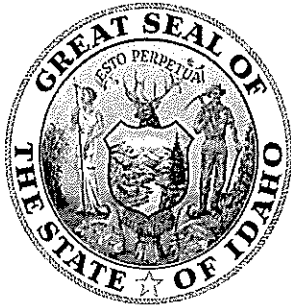
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## IDAHO TAX COMMISSION

FY 2009, 2010, AND 2011

Report MR35211  
Date Issued: April 16, 2012

*Serving Idaho's Citizen Legislature*



Idaho Legislative Services Office  
Legislative Audits Division

Don H. Berg, Manager

## IDAHO TAX COMMISSION

### SUMMARY

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#### PURPOSE OF MANAGEMENT REVIEW

We conducted a management review of the Idaho Tax Commission covering the fiscal years ended June 30, 2009, 2010, and 2011. Our review covered general administrative procedures and accounting controls to determine that activities are properly recorded and reported.

The intent of this review was not to express an opinion, but to provide general assurance on internal controls and to raise the awareness of management and others of any conditions and control weaknesses that may exist and offer recommendations for improvement.

#### CONCLUSION

We did not identify any significant conditions or weaknesses in the general administrative and accounting controls of the Commission.

#### FINDINGS AND RECOMMENDATIONS

There are no findings and recommendations in this report.

#### AGENCY RESPONSE

The Commission has reviewed the report and is in general agreement with its contents.

#### PRIOR FINDING AND RECOMMENDATION

The prior report included one finding and recommendation, which was evaluated as a part of the current review and is satisfactorily closed.

#### FINANCIAL INFORMATION

The following financial data is for informational purposes only.

#### IDAHO TAX COMMISSION – FINANCIAL SUMMARY FY 2011

Fund	Fund Name	Beginning	Receipts/ Transfers-in	Expenditures/ Transfers-out	Ending
		Cash/Balance Appropriation			Cash Balance/ Appropriation
0001	General Fund*	\$25,943,000	\$0	\$25,655,074	\$287,926
0276	Multistate Tax Compact	241,354	21,978,242	21,970,853	248,743
0338	Administrative Services	1,062,645	3,999,932	3,999,025	1,063,552
0348	Federal Grants	4,173	100,000	71,899	32,274
0401	Seminars and Publications	78,347	145,108	139,630	83,825
	Total	<u>\$27,329,519</u>	<u>\$26,223,282</u>	<u>\$51,836,481</u>	<u>\$1,716,320</u>

\* The ending balance includes encumbrances of \$155,642 and a reversion of \$132,284.

The Commission collected \$3.1 billion in tax revenue in fiscal year 2011. Of this amount, \$2.3 billion was deposited in the General Fund, and \$351.4 million was returned as refunds. The remaining money was allocated and distributed to other funds to be used for specific purposes. The receipts and distributions are summarized in the following schedule.

**IDAHO TAX COMMISSION RECEIPTS AND DISTRIBUTION SUMMARY – FISCAL YEAR 2011**

<u>Tax Type</u>	<u>Receipts</u>	<u>Fund</u>	<u>Distributions</u>
Individual Income Tax	\$1,454,668,946	General Fund	\$2,310,206,168
Corporate Income Tax	191,154,777	Fish and Game Donation	38,956
Sales Tax	1,166,271,518	Abandoned Mine Reclamation	791,314
Cigarette Tax	39,476,745	Petroleum Storage Trust	2,107,610
Tobacco Tax	9,849,084	Cancer Control	320,235
Beer Tax	4,213,925	Central Tumor Registry	128,094
Wine Tax	3,880,809	Substance Abuse Treatment	1,303,105
Kilowatt Hour Tax	2,429,958	County Juvenile Probation Services	4,323,990
Mine License Tax	2,417,791	Water Pollution Control	4,800,000
Estate Tax	600,481	Idaho Travel and Convention	6,512,311
Abandoned Property	9,717,596	Veterans Support Donation	43,008
Motor Fuels Tax	240,165,684	Cooperative Welfare	236,472
Boise Auditorium District	3,538,164	Parks & Rec Motor Fuels	4,633,938
Idaho Travel and Convention	6,665,722	Local Bridges and RR Crossings	350,000
Suspense Fund	37,943	Department of Transportation	225,177,321
Local Option Tax	2,686,962	Search & Rescue Fund	39,886
Miscellaneous Revenue and Taxes	272,206	Motor Fuel Distribution Fund	1,714,987
Total Receipts	<u>\$3,138,048,311</u>	Multistate Tax Compact	1,803,289
		Tax Comm. Admin Fees	3,833,000
		Wine Direct Shipper Fee to ISP	2,050
		Permanent Building Fund	29,902,028
		Miscellaneous Income	145,108
		Opportunity Scholarship	15,280
		Public School Endowment	9,683,037
		Children's Trust Donation	51,507
		Sales Tax - Demonstration Pilot Project	2,361,816
		Sales Tax - Ag Property Relief	8,487,103
		Sales Tax Distributions	151,316,385
		Counties Estate Tax	60,048
		Refunds	351,413,571
		Abandoned Property and Escheat	9,717,596
		Election Campaign Fund	1,460
		Suspense Fund	64,979
		Non-state Funds in Trust	6,462,659
		Total Distributions	<u>\$3,138,048,311</u>

**OTHER INFORMATION**

We discussed other issues which, if addressed, would improve internal control, compliance, and efficiency.

This report is intended solely for the information and use of the State of Idaho and the Idaho Tax Commission and is not intended to be used by anyone other than these specified parties.

We appreciate the cooperation and assistance given to us by the Tax Commission Acting Chairman, David Langhorst, and his staff.

**ASSIGNED STAFF**

Chris Farnsworth, CPA, Managing Auditor

Jim Combo, CPA, CGFM, In-Charge Auditor

James Barrett-Spencer, Staff Auditor

# TABLE OF CONTENTS

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Agency Response.....	1
Appendix.....	2

## AGENCY RESPONSE

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March 26, 2012

Chris Farnsworth, Managing Auditor  
Legislative Services Office  
Legislative Audits Division  
P.O. Box 83720  
Boise, Idaho 83720-0054

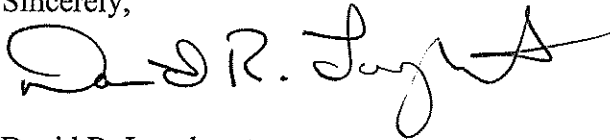
Re: Idaho State Tax Commission Audit FY2009-FY2011

Dear Mr. Farnsworth:

We have reviewed the audit report presented and agree with your conclusions. Although we are pleased there are no findings, we found the audit helpful and useful in many ways. We appreciated the professionalism and courtesy of your staff, Jim Combo and James Barrett-Spencer, and look forward to working with you again in coming years.

Thanks again on behalf of the Idaho State Tax Commission.

Sincerely,



David R. Langhorst  
Chairman

drl/mp/vjd

cc: State Tax Commissioners  
Don Berg, Director LSO Audit  
Mark Poppler, ISTC Chief Financial Officer

# APPENDIX

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## HISTORY

The Idaho State Legislature created the first Board of Tax Commissioners, known as the Idaho State Tax Commission. Members of the Idaho Public Utilities Commission comprised the first Idaho State Tax Commission. They served as ex-officio tax commissioners and received no additional salary or compensation. The principal duty of the original State Tax Commission was to coordinate assessment efforts for various county assessors; however, they had no powers with respect to meeting as a State Board of Equalization. The original State Tax Commission was dissolved by the Idaho Legislature in 1915.

In 1945, the Constitution was amended to provide for a State Tax Commission consisting of four members, not more than two of whom could belong to the same political party. These members were appointed by the Governor for staggered six-year terms, subject to approval by the Idaho State Senate.

At this time, all duties previously imposed on the State Board of Equalization by the Constitution and laws of the State were transferred to the newly created State Tax Commission. This Commission was a part-time Commission, and members were paid a per diem for each day devoted to the performance of Commission duties. In no event was the full performance of duties to require more than 100 days of service in any one year. The Commission employed the full-time services of an executive officer, who also acted as secretary to the Commission.

In 1967, the Idaho Legislature abolished the Office of the Tax Collector, the office primarily responsible for collecting various taxes, including individual and corporate income tax, gasoline tax, sales tax, and other miscellaneous taxes. At that time, the legislature also changed the services of the State Tax Commission from part-time to full-time. This full-time Commission also assumed all duties and responsibilities of the former Office of the Tax Collector.

Effective July 1, 1974, State government reorganization combined the State Tax Commission and the State Board of Tax Appeals into the presently organized Department of Revenue and Taxation, in concept only. That is, the Board of Tax Appeals is not physically located within the State Tax Commission, and the State Tax Commission exercises no administrative or functional authority over the Board of Tax Appeals.

## STATUTORY AUTHORITY

In addition to the constitutional powers conferred upon the Department of Revenue and Taxation by Article VII of the Idaho Constitution, the Department derives other specific duties, responsibilities, and authorities from Idaho Code, Title 63. Some of the more comprehensive general duties and responsibilities are:

- To exercise general supervision over the system of ad valorem taxation throughout the State.
- To assess taxation for all Class-3 (operating) properties.
- To conduct annual sales ratio studies for real property throughout the State for the purpose of allocating school funds.



- To administer, assess, collect, audit, and enforce taxes on income, sales, cigarettes, beer, gasoline, wine, kilowatt hour, mine license, inheritance, unclaimed property, and ad valorem taxes on car companies with assessed values of less than \$500,000.
- To publish rules and regulations pertaining to sales, income, miscellaneous and ad valorem laws, and to evaluate procedures.
- To provide educational programs and an appraisal school for Department employees and county assessors and their staff members.
- To maintain a tax research section to observe and investigate the effectiveness and adequacy of the revenue laws of the State, and to assist the executive and legislative departments in estimation of revenue, analysis of tax measures, and determination of the administrative feasibility of proposed tax legislation.

## **ORGANIZATIONAL STRUCTURE**

The organizational structure of the present Department is illustrated by the chart following this appendix. The Department is organized into four divisions, plus a tax policy section and legal section. Within the Audit Collections Division are five field offices located in Coeur d'Alene, Idaho Falls, Lewiston, Pocatello, and Twin Falls.

## **FUNDING**

### **General Fund (0001)**

Sources – The General Fund consists of "moneys received into the treasury and not specially appropriated to any other fund" (I.C. § 67-1205). Fund sources are: individual income tax, corporate income tax, sales tax, cigarette tax, beer tax, wine tax, liquor surcharge, kilowatt hour tax, mine license tax, interest on investments of certain idle State funds, court fees and fines, insurance premium tax, sale of alcoholic beverage licenses, filing of articles of incorporation and other fees collected by the Secretary of State, unclaimed property, and other miscellaneous sources from various agency receipts.

Uses – The Department receives a General Fund appropriation used for personnel costs, operating expenditures, and capital outlay for the operation of the Department.

### **Motor Fuels Distribution Fund (0267)**

Sources – This fund was created in fiscal year 1998, as a suspense fund to receive motor fuel tax receipts. All motor fuel taxes are deposited in this fund, and it also receives interest earned on the fund balance.

Uses – After the fuel tax returns are processed and the amount of each tax type is determined, the money is distributed to the appropriate funds based on Idaho Code requirements. (See the tax description and distribution requirements for fuel taxes in the previous section.)

### **Multistate Tax Compact Fund (0276)**

Sources – Money collected as a direct result of audits made by the Multistate Tax Commission (on behalf of the State of Idaho) is paid by the State Tax Commission into the Multistate Tax Compact Fund. The Multistate Tax Compact Fund was formed to determine the tax liability of multistate taxpayers, promote uniformity or compatibility in tax systems, facilitate taxpayer convenience and compliance in filing tax returns, and avoid duplicate taxation across states (I.C. § 63-3709).

Uses – The State Tax Commission receives the budget for the Multistate Tax Commission, including a statement of Idaho's share. Annually, on or before February 1, the Tax Commission certifies to the Joint Finance-Appropriations Committee, the Senate Local Government and Taxation Committee, and the House Revenue and Taxation Committee whether the budget complies with the Multistate Tax Compact. Unless the legislature determines otherwise, the amounts which the State Tax Commission has certified as complying are appropriated from the Multistate Tax Compact Fund to the Multistate Tax Commission.

If the funds in the Multistate Tax Compact Fund exceed 110% of the most recent annual appropriation made to the Multistate Tax Commission, the excess is transferred to the State General Fund.

Payments to the Multistate Tax Commission from the Multistate Tax Compact Fund are made only on approval of the State Tax Commission (I.C. § 63-3709).

#### **Administration and Accounting Fund (0338-01)**

Sources – The State Tax Commission is directed to retain funds to cover its cost of collecting and administering certain trust funds. For the following trust funds the amount is \$3,000 or 20%, whichever is less:

- The Fish and Game Trust Fund (0051)
- The Children's Trust Fund (0483)

For other taxes, the State Tax Commission is authorized to retain an amount of money equal to the cost of collection and administration (not to exceed legislative appropriation). Those taxes are:

- Idaho Travel and Convention Tax (0212)
- Greater Boise Auditorium District (0630)
- Petroleum Clean Water Trust Fund (0130)

Uses – Funds in the Administration and Accounting Fund are used to defray the cost of collecting and administering the taxes of the trust funds noted above (I.C. §§ 63-3067, 67-4718, 63-4209, and 41-4909).

#### **Administration and Accounting Services to Transportation Fund (0338-02)**

Sources – Gasoline tax receipts equal to the cost of collecting, administering, and enforcing the gasoline tax requirements, not to exceed the amount appropriated (I.C. § 63-2412(a)).

Special fuels tax receipts equal to the cost of collecting, administering, and enforcing the Special Fuels Tax, not to exceed the amount appropriated (I.C. § 63-2418(1)).

Uses – The funds are used to pay the costs of administering, collecting, auditing, and enforcing the laws related to the Gasoline Tax and Special Fuels Tax programs (I.C. §§ 63-2412 through 63-2418).

#### **Federal Grant Fund (0348)**

Sources – Federal government.

Uses – To enforce compliance of highway motor fuel use tax.

**Seminars and Publications Fund (0401)**

Sources – Various sources, including fees, educational-related sales, tax regulations and printed materials, copy charges, supplies, bad-check charges, postage reimbursement, sale of maps, and unclaimed property lists. All sales are primarily made to the public.

Uses – These funds are used to defray costs associated with collecting and administering these funds.

**OTHER FUNDS**

The Department uses several additional funds to carry out its legal and administrative duties. These funds are used to make legally required refunds and allocations, and to transfer tax revenue to the appropriate fund or entity as explained below.

**Tax Commission Refund Fund (0516)**

Sources – Twenty percent (20%) of State individual and corporate income taxes is deposited in the State Refund Fund (I.C. § 63-3067).

Additionally, as necessary, an amount sufficient to pay refunds for various tax types is distributed to this fund from the following taxes:

- Sales Tax
- Cigarette Tax
- Beer Tax
- Gasoline Tax
- Estate Tax
- Wine Tax
- Kilowatt Hour Tax
- Mine License Tax
- Tobacco Tax
- Special Fuels Tax
- Travel and Convention Tax
- Boise Auditorium Tax
- Illegal Drug Tax
- Nez Perce County Sales Tax

Uses – The State Refund Fund repays overpayments and any other erroneous receipts illegally assessed or collected. When necessary, for the purpose of making prompt refund payments, the State Tax Commission may request that the Board of Examiners authorize transferring an additional specific amount from the income tax collections to the State Refund Fund. Any unencumbered balance over \$1.5 million in the fund on June 30 is transferred to the State General Fund (I.C. § 63-3067).

**Revenue Sharing Fund (0502-01)**

Sources – This fund receives 11.5% of the State sales tax revenue (I.C. § 63-3638).

Uses – This tax is distributed to cities and counties as follows:

- 28.2% to various cities, distributed as follows:
  - 50% to cities in the proportion that each city's population bears to the population of all cities within the State.
  - 50% to the cities in the proportion that their preceding year's assessed market value bears to the assessment value of all cities within the State.

- 28.2% to various counties as follows:
  - \$1,320,000 split equally between each county in the State.
  - The balance to the counties in the proportion that the population of each county bears to the population of the State.
- 35.9% to various counties as follows:
  - Each county that received a payment under the provisions of I.C. § 63-3638(e) during the fourth quarter of 1999, shall be entitled to a like amount. If that amount is more or less than the fourth quarter payment, the payment will be reduced or increased proportionately not to exceed 105% of the total payment made in the fourth quarter of 1999. Any amount exceeding 105% of the fourth quarter amount of 1999, shall be split 50% between cities and counties, and shall be distributed based on population percentages.
- 7.7% to various special taxing districts as follows:
  - Each district that received a payment under the provisions of I.C. § 63-3638 (e) during the fourth quarter of 1999, shall be entitled to a like amount during succeeding calendar quarters. If revenues are not equal to those distributed in the fourth quarter of 1999, each special taxing district's payment shall be reduced proportionately. If the revenues exceed those of the fourth quarter payment of 1999, the excess shall be distributed based on the proportion that each districts' current property tax budget bears to the sum of current property tax budgets of all such districts in the State.
  - If a special purpose taxing district is dissolved or disincorporated, the State Tax Commission shall continuously distribute to the board of county commissioners, an amount equal to the last quarter's distribution prior to dissolution or disincorporation. The board shall determine any redistribution of the money received.

#### **County Circuit Breaker Fund (0502-03)**

Sources – This fund receives State sales tax revenue in the amount certified to the county auditor under the circuit breaker provisions of the Idaho Code (I.C. § 63-709).

Uses – Each year the State Tax Commission reviews the claims and certifies the dollar amount to the county auditor by the third Monday in November. By December 20, the State Tax Commission pays each county one-half the amount due, with the second half paid by the following June 20 (I.C. §§ 63-701 through 63-710).

#### **Sales Tax Ag Property Tax Relief (0502-06)**

Sources – Funded by sales tax revenues (I.C. § 63-3638(11)).

Uses – Provides payments to counties and other taxing districts to replace property tax revenue lost when agricultural equipment was exempted from property taxes (I.C. § 63-602EE).

#### **Demonstration Pilot Project (0502-08)**

Sources – 60% of the sales tax collected by certain qualified retailers (I.C. § 63-3641).

Uses – Reimbursement of developers for costs related to approved transportation improvements, not to exceed \$35 million for a single improvement (I.C. § 40-109).

**Election Consolidation Fund (0502-09)**

Sources – This fund receives State sales tax revenue of no less than \$4,100,000 starting in fiscal year 2011 and shall be adjusted annually with the consumer price index for all urban consumers (CPIU). (I.C. § 63-3638)

Uses – Funds shall be distributed to counties and used exclusively to defray the costs associated with conducting elections in accordance with Idaho Code §34-1401.

**Estate Tax Fund (0507)**

Sources – The Commission collects estate taxes and remits the money to the State Treasurer (I.C. § 14-413).

Uses – Estate taxes are distributed as follows:

- 10% to a fund for distribution to counties, at least quarterly.
- An amount sufficient to pay current refund claims to the State Refund Fund.
- The balance to the General Fund.

**Election Campaign Fund (0600)**

Sources – Taxpayers filing individual income tax returns, whose income tax liability is at least \$1, may designate \$1 to be paid to the Election Campaign Fund (I.C. § 63-3088).

Uses – Funds are disbursed monthly to the State Controller's Office for distribution to Idaho's various political parties.

**Custodial Fund (0630)**

Sources – Suspense items are charged to this fund until they are ready to be credited to the proper fund. This includes items like electronic fund transfers and field office deposits. Several Idaho Code sections require the State to bond taxpayers. All bonds are receipted in this fund and a subsidiary journal of individual bonds is maintained.

Uses – Suspense items are held in this fund until they are identified and can be charged to the proper fund. The bond amounts are held as long as required.

**Non-State Funds in Trust (0630-02)**

Sources – Local option tax receipts, Boise Auditorium District tax receipts, and a portion of wine tax receipts are deposited into this fund.

Uses – Receipts are distributed monthly as follows:

- Local option taxes are distributed to Nez Perce County.
- Wine tax receipts are distributed to the Idaho Grape Growers and Wine Producers Commission.
- Boise Auditorium District tax receipts are distributed to the Boise Auditorium District.

# Idaho State Tax Commission

## Commissioners and Executive Leadership Team

